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## Russian Federation

### Sugar

### Sugar Annual Report

**2007**

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**Report Highlights:**

Russia produced 3.2 million metric tons of sugar beets in marketing year 2007, the largest production volume in recent history. Increased acreage and record yields were the driving force behind these production figures. In 2008, production is forecast to be slightly lower despite increased planting due mainly to an expected return to normal yields. Brazil provides the bulk of Russia's raw sugar imports while Belarus and Poland remain the largest suppliers of refined sugar. Sugar beet producers and processors have been lobbying for higher seasonal duties on imported sugar.

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## Executive Summary

Russia experienced one of the largest sugar beet harvests in recent years in marketing year (MY) 2007 as a result of increased acreage and record high yields. Russia harvested 30 million metric tons (MMT) of sugar beets in MY 2007, 37 percent more than in 2006 and almost 30 percent more than the previous estimate. The sugar beet yield was 13 percent higher than in 2006 and significantly exceeded long-term averages. Beet sugar production also set a record at 3.2 MMT in MY 2007 and total acreage planted rose 24 percent.

Production in MY 2008 is estimated to be lower despite slightly higher planted acreage because of an expected return to normal yields. New and existing measures designed to protect domestic sugar producers should result in stable, but high prices.

Sugar beet producers cite refinery capacity as the predominant constraint to the Russian sugar industry, as the refineries do not have the capacity to process the increased sugar volume. Both sugar beet producers and processors are pursuing an increase in seasonal import duties on raw sugar as a means of maintaining high sugar prices.

Direct sugar consumption continues to slide, but the increase in industrial consumption offsets this loss. Russian sugar market imports will decline in MY 2008, largely because domestic production is expected to reach a record 3.3 MMT in 2008. Brazil is the predominant source of imported raw sugar, while Belarus and Poland dominate the refined sugar market.

## Production

Russia experienced one of the largest sugar beet harvests in recent years in MY 2007 as a result of increased acreage and record high yields. Russia harvested 30 MMT of sugar beets in MY 2007, 37 percent more than in 2006 and almost 30 percent more than the previous estimate. Beet sugar production also set a record at 3.2 MMT and acreage planted to sugar beets rose 24 percent in MY 2007. The beet yield was 13 percent higher than in 2006 and significantly exceeded long-term averages. The yields were spurred by good weather, renovation of agricultural machinery, increased government support, and better supplies of fuel, fertilizer and pesticides. The above-average temperatures also resulted in an early harvest.

Several regions posted high profit margins on sugar beet processing. This, combined with the lower profits associated with imported raw sugar, has prompted the expansion of sugar beet planting as sugar companies attempted to convert their operations to pure beet sugar processing. Many companies are vertically integrating their operations and wish to expand both the production and processing of sugar beets.

Production in MY 2008 is estimated to be lower despite slightly higher planted acreage due mainly to an expected return to normal yields. New and existing measures designed to protect domestic sugar producers should result in stable, but high prices.

**Table 1. Russia - Production of Sugar Beets, Calendar Year**

	2002	2003	2004	2005	2006
Sugar beet area, 1,000 hectares	809	924	863	n.a.	950
Sugar beet harvest, MMT	15.7	19.4	21.7	21.4	29.9
Yield, MT/hectare	21.9	22.8	27.6	28.2	32.0

Source: Russian Federal State Statistics Service

**Table 2. Russia - Production, Supply and Demand Table for Sugar Beets**

PSD Table										
Country	Russian Federation									
Commodity	Sugar Beets						(1000 HA)(1000 MT)			
	2006	Revised		2007	Estimate		2008	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		09/2005	09/2005		09/2006	09/2006		09/2007	09/2007	MM/YYYY
Area Planted	980	980	980	1070	1120	1120	0	1150	1150	(1000 HA)
Area Harvested	965	965	965	1040	1080	1080	0	1100	1100	(1000 HA)
Production	21800	21800	21800	22000	23000	30000	0	23200	28000	(1000 MT)
Total Supply	21800	21800	21800	22000	23000	30000	0	23200	28000	(1000 MT)
Utilization for Sugar	21800	21800	21800	22000	23000	30000	0	23200	28000	(1000 MT)
Utilization for Alcohol	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Distribution	21800	21800	21800	22000	23000	30000	0	23200	28000	(1000 MT)

**Constraints Faced By Sugar Beet Producers**

Sugar beet producers cite refinery capacity as the biggest constraint of the Russian sugar industry as the refineries do not have the capacity to process increasing volumes. In some instances sugar beets were not harvested as some regional refineries periodically refused to buy beets. Reasons for this are multifold: some refineries refused to purchase beets due to a lack of processing capacity while others experienced financial difficulties. Farmers are also growing imported varieties of beets that while more productive cannot be stored as long as traditional Russian varieties. In many regions, the lack of refining capacity is a serious limitation on production, and is expected to lead to significant losses in storage.

**Sugar Beet Lobby**

Many players in the sugar industry refer to the current environment as a crisis of overproduction. Both sugar beet producers and processors are lobbying for higher seasonal

duties on imported sugar in an attempt to maintain high sugar prices. Foreign producers sharply increased their sugar exports to Russia in anticipation of a seasonal tariff on imported raw sugar and this further strained the limited capacity of sugar refineries.

### Sugar Production

Beet sugar production rose from 2.25 MMT in MY 2006 to 3.15 MMT in MY 2007. This increase was bolstered by improvements in processing efficiency, an increase in planted acreage, improved sugar content, and smaller losses at all stages of harvesting. Many refineries also renovated and modernized their equipment, which improved their efficiency and capacity. In 2006, Russia produced 5.8 MT of granulated sugar (from both raw sugar, and sugar beets), an increase of 3.4 percent over the previous year.

**Table 3. Russia - Production, Supply and Demand Table for Sugar, Centrifugal**

PSD Table										
Country	Russian Federation									
Commodity	Sugar, Centrifugal						(1000 MT)			
	2006	Revised		2007	Estimate		2008	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		10/2005	10/2005		10/2006	10/2006		10/2007	10/2007	MM/YYYY
Beginning Stocks	580	580	580	470	470	470	400	400	440	(1000 MT)
Beet Sugar Production	2500	2500	2500	2650	2650	3150	0	2700	3000	(1000 MT)
Cane Sugar Production	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Sugar Production	2500	2500	2500	2650	2650	3150	0	2700	3000	(1000 MT)
Raw Imports	2600	2600	2600	3000	3000	2650	0	3000	2850	(1000 MT)
Refined Imp.(Raw Val)	300	300	300	400	400	300	0	400	300	(1000 MT)
Total Imports	2900	2900	2900	3400	3400	2950	0	3400	3150	(1000 MT)
Total Supply	5980	5980	5980	6520	6520	6570	400	6500	6590	(1000 MT)
Raw Exports	10	10	10	10	10	0	0	10	0	(1000 MT)
Refined Exp.(Raw Val)	100	100	100	100	100	180	0	100	200	(1000 MT)
Total Exports	110	110	110	110	110	180	0	110	200	(1000 MT)
Human Dom. Consumption	5400	5400	5400	6010	6010	5950	0	6000	5990	(1000 MT)
Other Disappearance	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Use	5400	5400	5400	6010	6010	5950	0	6000	5990	(1000 MT)
Ending Stocks	470	470	470	400	400	440	0	390	400	(1000 MT)
Total Distribution	5980	5980	5980	6520	6520	6570	0	6500	6590	(1000 MT)

## Standards

Sand sugar is produced in accordance with the standards explicated in GOST 21-94, which specifies a chroma level of 104 ICUMSA. Pressed refined sugar must comply with GOST 22-94 requirements that do not specify any particular chroma level.

Many companies work in both domestic and international markets and maintain their own internal standards correspondingly. In addition to chroma level, they specify more rigid standards for ash content, moisture, microorganisms, bacteria, heavy metals, and arsenic content.

Currently, no standards exist for brown sugar, beet sugar, sugar for chocolate production, soft drink sugar and other confectionary sugars. Improved standards are also needed for other types of sugar products including sand sugar, refined pressed sugar, raw beet molasses, sugar beet pulp, raw sugar and other sugar derivatives. The development of these standards would substitute for multiple and often differing quality requirements of industrial consumers. Stricter standards would also allow Russia to stop sugar imports from CIS member-countries that currently do not meet even the minimal standards required by GOST 21-94.

## Consumption

Overall, direct sugar consumption by the population continues to recede, but industrial consumption, particularly in the soft drink sector, is steadily growing.

## Trade

Russia's sugar market is estimated at 6 MT per year. The deficit in supply is filled with imports of both raw and refined sugar although the portion of raw sugar has been shrinking in recent years. Sugar imports are expected to decline in MY 2008 because domestic production is expected to reach a record 3.3 MMT in 2008. 156,000 tons of raw sugar was imported to Russia November 2006 and 303,000 tons in December 2006. By comparison, raw sugar imports reached 50,000 and 70,000 MMT during the same period in 2005, respectively.

By the end of March 2007, Russia imported 1.05 MMT of raw sugar, a substantial increase over the 0.61 MMT that were imported in 2006. Brazil is the predominant source of imported raw sugar while Belarus and Poland are the main suppliers of refined sugar.

**Table 4. Russia – Imports of Sugar, Quantity, MT, Jan – Dec**

HS	Description	2004	2005	2006
17 Sugars		2,893,410	3,154,214	2,875,086
1701	Cane/Beet, Solid Form	2,783,317	3,031,382	2,748,956
1704	Confection, No Cocoa	58,866	65,966	64,549
1702	Other Sugar	51,227	56,865	61,581

Source: World Trade Atlas

**Table 5. Russia – Imports of Raw Cane Sugar in MT,  
HS Code #170111, by Countries, Jan – Dec**

					% Change
Rank	Country	2004	2005	2006	- 06/05 -
0	--The World--	2,582,927	2,886,024	2,634,679	-8,71
1	Brazil	1,569,548	2,358,788	2,335,243	-1
2	Argentina	0	9,997	79,915	699,38
3	Cuba	849,253	185,167	71,460	-61,41
4	El Salvador	64,876	64,798	61,969	-4,37
5	Thailand	64,162	44,719	37,328	-16,53
6	Nicaragua	0	47,502	29,952	-36,95
7	South Africa	0	19	18,206	0

Source: World Trade Atlas

**Table 6. Russia - Imports of Pure Sucrose, HS Code #170199 in MT, Jan –Dec**

Rank	Country	2004	2005	2006
0	--The World--	200,091	145,000	113,766
1	Poland	37,445	64,000	67,926
2	Kazakhstan	71,276	36,000	17,000
3	Moldova	0	3,999	14,623
4	Kyrgyzstan	56,825	30,416	4,450

Source: World Trade Atlas

**Table 7. Russia – Exports of Pure Sucrose, HS Code #170199,  
by countries, in MT, Jan –Dec**

		Jan – Dec			% Change
Rank	Country	2004	2005	2006	- 06/05 -
0	--The World--	122,729	135,121	166,804	23,45
1	Kazakhstan	33,242	42,039	51,625	22,8
2	Tajikistan	14,561	17,157	46,784	172,68
3	Afghanistan	252	2,500	20,295	711,82

Source: World Trade Atlas

## Trade with Belarus

Russia and Belarus have a bilateral sugar agreement in which Belarus agreed to limit sugar exports to 180,000 MT in 2007, and 100,000 MT in 2008. In addition to these limits the exported sugar must be distributed evenly throughout the year. The wholesale export price must correspond to the wholesale sugar price of Russian producers. Shipping procedures from Belarus to Russia are to be streamlined, particularly at the border. Thorough inspection verifying country of origin is superfluous as the specific supply volume is pre-set. Belarussian sugar exports to Russia totaled 400,000 MT in 2006 but are not included in official statistics.

## Sugar Export

Russia's sugar exports increased 24 percent in 2006, and totaled 166,804 MT of white sugar. The largest export markets are Kazakhstan and Tajikistan. Adoption of stricter international

standards for quality would help increase the competitiveness of Russian sugar on the global market.

### Sugar Prices

Sugar prices were somewhat volatile in 2006 and linked with world market prices and domestic sugar stocks. High levels of sugar beet production and increased imports of raw sugar at the end of 2006 and beginning of 2007 depressed wholesale prices. Over the past six months, sugar prices have fallen more than 20 percent. The Russian State Statistics Service reported the wholesale factory gate price on granulated sugar was 13.7 RUR/kilo as of January 2007. Six months ago, the official price was 17.2 RUR/kilo. The average price for raw sugar during the last 3 months equaled 234.83 USD per MT.

**Table 8. Russia - White Sugar Wholesale Prices 2004-06, RUR/kilo**

Date	2004		2005		2006	
	Moscow	Krasnodar	Moscow	Krasnodar	Moscow	Krasnodar
January	13.60	13.60	16.60	14.20	17.50	14.45
February	13.50	13.55	19.50	14.10	20.50	14.45
March	14.10	14.30	22.20	14.80	25.00	15.10
April	14.30	14.20	19.50	14.90	20.40	14.95
May	14.50	14.50	18.60	15.15	19.40	15.20
June	14.50	15.05	18.60	15.30	19.60	15.65
July	14.60	15.10	20.30	15.15	21.35	15.65
August	16.00	15.20	21.40	16.90	22.40	16.00
September	15.00	13.70	18.70	15.85	21.60	14.80
October	14.40	13.90	16.80	15.90	18.20	15.10
November	13.40	14.00	14.90	14.30	15.55	14.60
December	13.70	14.30	15.00	14.65	15.80	14.70

Source: IKAR, ISCO-I Sugar Monitoring; [www.isco-i.ru](http://www.isco-i.ru)

**Table 9. Russia - White Sugar Wholesale Prices, RUR/kilo for 2007**

	Moscow	Krasnodar
January 9	15.70	15.00
February 2	15.30	14.40
March 3	14.80	13.90

Source: ISCO-I Sugar Monitoring; [www.isco-i.ru](http://www.isco-i.ru)

### Stocks

Sugar stocks in Russia are currently high but are expected to stabilize by the end of 2007. Many companies sharply increased sugar imports to Russia from January-March 2007 in anticipation of a possible seasonal duty placed on raw sugar. Although this seasonal duty never materialized, a flood of imported sugar added to the high level of domestic sugar beet production.



### **Demand Grows for Seasonal Import Duty**

The Russian sugar union has been pressing for a seasonal duty of 250 USD/MT beginning March 1 for a period of five months in an attempt to limit the flow of lower cost imported sugar. However, a Ministry of Agriculture representative stated in April that a seasonal duty would not be introduced but admitted that it was being considered. There are a number of unresolved issues between the Ministry of Finance and the Ministry for Economic Development and Trade (MEDT) that must be settled before a new policy can be implemented. MEDT officials have expressed concerns that new tariffs could accelerate inflation. Naturally, the sugar union refutes this claim.

According to data obtained from the Federal Statistics Service, the current wholesale price for sugar in Russia is 15.4 RUR/kilo (not including VAT). If the seasonal duty is imposed, the Statistics Service calculates that the price would increase 3.5 percent to 15.9 RUR/kilo. A Ministry of Agriculture representative added that imposing this duty would reduce sugar imports for 2.6 MT in 2006 to 2.4 MT in 2007, enabling continued growth and development in the domestic sugar sphere. He stated that eventually Russia would be able to replace all imported raw sugar with domestic product.

### **Marketing**

The most serious issues facing the sugar industry in Russia are related to production, not market access. Sugar industry trends show a strong movement away from primitive raw material processing towards value-added consumer products. Russia does not have adequate facilities to produce value-added consumer products and faces substantial competition in this sector.

### **Packaging**

Most Russian sugar refineries supply packaged sugar to wholesale intermediaries with standard 50-kilogram bags. In general refineries do not create packaging for retail consumers. Only 35 sugar refineries have the necessary equipment to produce small wholesale 10-kilogram packages and only one refinery has the ability to package sugar into 5-kilogram containers. Seven refineries package sugar into one-kilogram containers but this constitutes less than ten percent of total sugar refineries in Russia. Two refineries produce pressed refined sugar for wholesale and two others work with a "private label" program and package sugar with the retail network packaging. Currently, no Russian refineries produce individual serving size packets commonly used in restaurants and cafes. There are no refineries that produce liquid sugar and only two that produce packless sugar.

### **Import Duties**

Raw sugar import duties fluctuate taking into account sugar prices set on the New York Mercantile Exchange (NYME). When prices are high on the NYME, the Russian government sets the import duty at a lower rate and vice versa. The current duty through May 2007 is set at 140 USD per MT, unchanged since October 2005. No official announcement has been made yet regarding the import duty level for the rest of 2007. The previous duty was set at 164 USD per MT and was valid from December 2004 until September 2005.